

SUBCOMMITTEE NO. 4

Agenda

Mike Machado, Chair
Tom McClintock
Christine Kehoe



Thursday, March 23, 2006
9:30 a.m. or Upon Adjournment of Session
Room 112

Consultant: Dave O'Toole

“A” AGENDA

Item Number and Title

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VOTE-ONLY BUDGET ITEM

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. For example, tax relief is provided to individuals who agree to hold their land as open space under the Williamson Act of 1965 and through payments to cities and counties to help defray revenues lost as a result of tax relief programs. Proposed Tax Relief expenditures are \$671.4 million and no positions.

Key items included in the budget are:

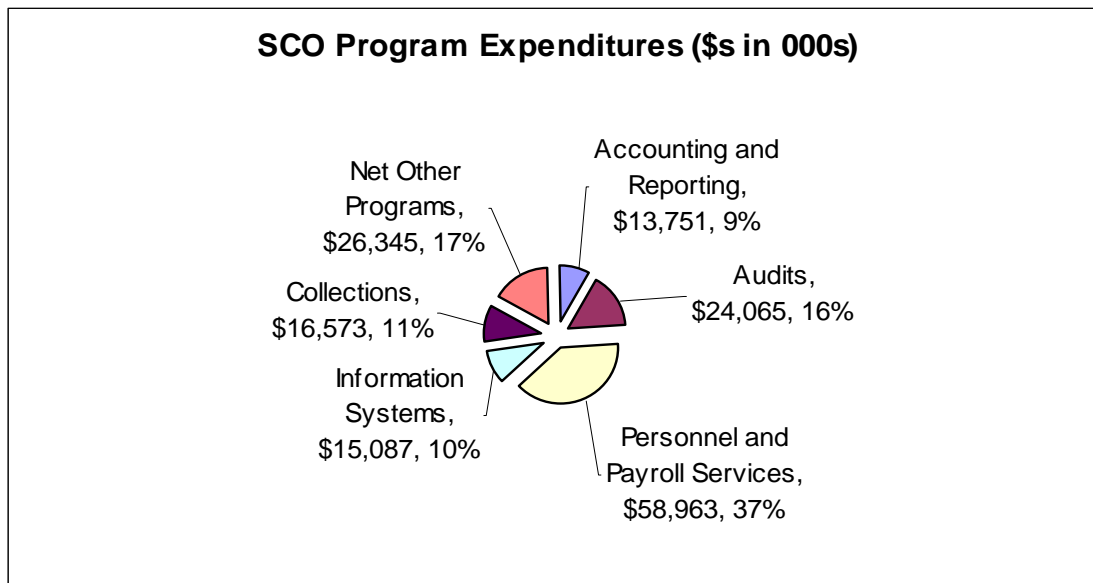
- *Program Expenditure Adjustments.* The Governor's budget includes a net reduction of \$3.9 million General Fund in the budget year for adjustments to reflect estimated participation in the Senior Citizens' Property Tax and Renters' Tax Assistance Programs, the Senior Citizens' Property Tax Deferral Program, and the Homeowners' Property Tax Relief.
- *Williamson Act.* The Governor's budget fully funds the Williamson Act subventions for open space preservation at \$39.6 million.

VOTE ON VOTE-ONLY ITEM 9100:

0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller's Office (SCO) are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs. The Governor's budget funds 1,142.3 positions (including 54.7 new positions) and \$27.8 million in expenditures.

The chart below displays SCO expenditures by function:



VOTE ONLY ISSUE:

A. Other Post Employment Benefits (OPEB)/Generally Accepted Accounting Principles (GAAP) Compliance.

The SCO requests \$252,000 (special, non-governmental, and bond funds) and one position two-years limited-term for increased workload to remain GAAP compliant in producing various annual financial reports. These reports are required by Government Code and by federal Governmental Accounting Standards Board financial reporting standards. The LAO has recommended funding this proposal as an important step in better quantifying public employee pension costs that would enable the Legislature to better understand the magnitude of the state's unfunded liabilities.

STAFF RECOMMENDATION ON VOTE ONLY ITEMS: APPROVE AS BUDGETED.

VOTE:

DISCUSSION ISSUES

1. Unclaimed Property Program Staffing. The SCO requests \$554,000 General Fund and 7.2 positions to handle increased workload associated with notifying owners of unclaimed property, facilitating auctions of safe deposit boxes, and providing operational support to Unclaimed Property Program management. The SCO's request consists of the following three components:

- 2.6 permanent positions for increased workload associated with the mailing of Franchise Tax Board (FTB) notices to owners of unclaimed property.
- 2.1 permanent positions for workload associated with the auctions of safe deposit box contents.
- 2.5 permanent positions for operational support to the Unclaimed Property Program (UCP) management.

The SCO has explained that if the unclaimed property workload positions for FTB notices and auctions are not approved service delivery and unclaimed property auctions would be degraded. Unclaimed property auction revenues would decrease from \$1.6 million to \$1 million annually by 2007, based on reduced capacity to operate online auctions.

Staff Comment: The Budget Change Proposal (BCP) notes that in the last two years the UCP has been able to redirect 14 positions for FTB notices and safe deposit box resolution workloads, but that ongoing redirections will undermine their ability to meet other workloads. A redirection equal to five percent of approximately 128 program personnel is considerable. Of the 14 redirections, nine occurred within the Division of Collections (which includes the UCP) and five positions were redirected from other divisions.

The 2.5 operational support positions are a new workload request. The proposed staff would conduct legal research, fraud detection and prevention, special projects, customer service, legislation, and other staff work.

Recognizing the SCO's considerable capacity for staff redirections, redirections may also be used for the new operational support activity, perhaps using staff previously redirected from other divisions. Furthermore, many of the proposed operational support activities are germane to other divisions (e.g. legal research, fraud detection, legislation, and customer service) and could be absorbed by, or using staff from, other SCO divisions.

Staff notes that while Unclaimed Property Program activity has surged in recent years, the ongoing workload is less certain as more citizens learn how to recover their property and new technological capacities to reunite owners with their property become available.

The Legislature should revisit workload trends for FTB notice positions (2.6) and safe deposit box positions (2.1) at a later date and ascertain whether redirections may again be possible.

Staff Recommendation:

1. AMEND the request for 2.6 FTB notice positions and 2.1 safe deposit box unit positions, by making them three-year limited-term.
2. REJECT the request for 2.5 positions for operational support.

VOTE:

2. Bank Reconciliation System Project. The SCO requests \$710,000 (\$308,000 General Fund) to replace the State Controller's existing bank reconciliation system. This system tracks and issues bank warrants for the state, interacting with the State Treasurer, Department of Finance, Department of Motor Vehicles, CalSTRS, CalPERS, and the Franchise Tax Board. The SCO asserts that the technology of the current system is obsolete and technicians to maintain the system increasingly scarce. The proposed solution will use the services of a data conversion company to convert the existing database into a more modern and functional format.

Staff Comment: Considered alongside SCO requests for additional funding to replace the Apportionment Payment System and Human Resource Management System (both BCPs to be considered later by the Subcommittee), this BCP suggests that the SCO has adopted a piecemeal approach to IT projects and has no discernable plan to replace their antiquated IT systems. The SCO reported that they have over 70 IT systems needing replacement (some portion of those will be rolled into other projects) and that the BankRec system is their next top priority.

The SCO operates automated systems to provide services to the state (primarily through fiscal and human resource management systems), local governments (through fiscal and reporting systems), and citizens (through the unclaimed property system). When asked by staff for an overall plan to replace systems, the SCO stated that they are currently operating under the recommendations outlined in the 2002 IT infrastructure study by Gartner Consulting.

The Gartner report was developed in the wake of the budget and energy crises of 2002. At that time the SCO's most ambitious IT upgrade, the HRMS project, had just been cancelled due to excessive cost. Acknowledging these fiscal constraints, the Gartner Report provided a five to seven year plan for the SCO to use for modernizing the SCO's technology infrastructure. The central recommendation was that SCO should "incrementally modernize its existing systems and then exploit that modernization for direct business gain." The Gartner report did not provide a priority listing for the replacement of specific IT systems.

Following the state's improved revenue picture, the SCO did not strictly adhere to the Gartner study recommendation. Rather than modernizing existing systems, the HRMS project was reinstated (and now approaches the initial rollout stage), the Unclaimed Property system was replaced, the Apportionment Payment System is in the process of being replaced, and SCO now seeks to replace its BankRec system.

Without an overall plan to replace the legacy systems or priorities to consider, the Legislature may face one or more IT replacement project BCPs every year until all 70 are replaced. A better approach would be for the SCO to inventory, prioritize, and identify systems that might appropriately be consolidated based on the interaction of the processes they support. To propose replacement without this underlying analysis may overlook the possibility of an enterprise-wide approach enabled by current technology.

The SCO should make these priorities public and well known to all current stakeholders. The problem with not making IT priorities public is evidenced with the delayed implementation of the Human Resources Management System (HRMS) project. The uncertainty over when that system would be replaced led many departments to implement their own systems, creating a dissimilar patchwork of human resource tracking that must now be replaced. With a public plan and timelines, state and local agencies will be better able to prioritize their own IT procurements.

Staff Recommendation: HOLD OPEN and request the SCO report to the Legislature on:

1. All IT projects needing replacement, project timelines, anticipated cost, and other information necessary to provide a comprehensive legacy systems replacement plan.
2. The steps the SCO intends to take to inform stakeholders of IT replacement plans.

3. CalATERS

The SCO is currently implementing, maintaining, and rolling out the California Automated Travel Expense Reimbursement System (CalATERS), a computer system that automates the previously manual process of reimbursing state employees for travel costs. The benefits of using CalATERS include allowing state employees to submit travel claims easily, improved accuracy through automation, and centralized audits of travel rules and departmental policies. The CalATERS program began in July 2000 and has now been implemented in dozens of departments, affecting more than half of state employees.

Staff Comment: In the original Feasibility Study Report (FSR), the CalATERS BCPs approved in 2004-05 and 2005-06, and in the most recent IT Special Project Report (SPR), the SCO asserted that between \$8 and \$9 million in savings would be achievable by implementing CalATERS statewide. In the CPR, the SCO's staff identified a savings level of \$9.3 million, noting that that CalATERS reduces processing time from two weeks to five days for a typical expense claim.

A May 1995 SCO report, *Automated Travel Reimbursement Process Study*, is the basis for all savings estimates identified for shifting from paper to automated claims. In 1995 the state was spending over \$180 million annually for travel-related expenses and \$16 million to process claims at all departments. The report identified a 47 percent statewide cost reduction (\$7.8 million at the time) for shifting to a statewide automated system.

During recent discussions with staff, the SCO has declined to confirm the savings level previously identified. The SCO has asserted that with departments absorbing 100 percent of the development and maintenance costs, benefits should stay with those

departments. Staff notes that while *one-time* development costs were borne by most departments, *ongoing* operational costs are borne by the departments that use CalATERS, through a \$6 fee per transaction.

According to the SCO, any savings achieved through the conversion to CalATERS have most likely been redirected by departments, citing recent unallocated reductions as places where those savings were needed. (Staff notes that most of the unallocated reductions were one-time and that ongoing savings should still accrue.) If any department wants to voluntarily identify savings, the SCO plans to issue a customer satisfaction survey in the fall of this year to allow them to do that.

Within the SCO (where all travel claims must eventually go), efficiencies have occurred, primarily in claims audits and processing workloads. CalATERS has allowed the SCO auditors to conduct more audits, rather than reduce audit staffing. The SCO has recognized the benefits of automated claims by devoting their best travel claims auditors to those claims flagged by the system. In processing workloads (paying individuals and departmental revolving funds), no savings have been recognized.

Significant savings still appear achievable. According to the SCO, even though CalATERS has rolled out with over half of departments, approximately 80 percent of their claims are still submitted by paper. If CalATERS were rolled out statewide, the auditing workload could decrease further.

In light of the department's requests for ongoing support for the Human Resources Management System (from which the department identified \$3 million in annual statewide savings) as well as other future legacy system replacement requests where savings may occur, the Legislature should have a better understanding of how to evaluate SCO BCPs where savings are indicated.

Staff Recommendation: Request the SCO report on:

1. What portion of the \$9 million savings identified in the BCPs, an FSR, SPR, and the CPR can be recognized and by what time.
2. CalATERS-related savings identified to date at all departments and within the SCO.
3. Savings estimates (based on number of claims) for departments that will be brought into CalATERS.
4. Any policy or fiscal considerations to requiring that CalATERS be incorporated by (a) all departments, and (b) all departments that receive General Fund.

8885 Commission on State Mandates

The Commission on State Mandates is a quasi-judicial body that makes the initial determination of state mandated costs. The Commission is tasked to fairly and impartially determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The Governor's budget funds 14 positions (with no new positions) and expenditures of \$243.4 million.

The budget includes \$241.6 million (\$240 million General Fund) to local governments for mandate costs. That sum contains the following five components:

- Payment of \$48.0 million for 35 mandates.
- Payment of \$45.7 million for mandates still to be identified for payment in the budget year.
- Deferment of payment for the Peace Officers Procedural Bill of Rights Mandate, mandate estimated to cost \$35 million in the budget year.
- An appropriation of \$50 million for mental health services to special education students (the AB 3632 mandate) with the express intent that mandate be converted to a categorical program.
- An appropriation of \$98.1 million for the first year of a 15-year repayment cycle for past due state mandate claims.

Twenty-eight mandates are recommended for suspension in the budget year.

DISCUSSION ISSUES

1. Size of Mandate Backlog Uncertain (LAO Issue)

Proposition 1A authorizes the state to pay, over an unspecified term of years, unpaid noneducation mandate claims incurred prior to 2004-05. (Subsequent statute specified the term of this repayment plan to be 15 years.) The Governor's budget includes \$98.1 million for the state's payment in 2006-07 towards the backlog. At the time this analysis was prepared, the backlog of noneducation mandates dating from before 2004-05 totaled \$1.1 billion. The State Controller's Office, however, still was tallying late mandate claims and completing mandate audits. Both these actions could affect the state's costs to pay the backlog. Accordingly, we withhold recommendation on this item, pending updated information from the State Controller's Office (SCO).

Staff Recommendation: Request the SCO report to the Subcommittee on the latest estimated size of the backlog and the basis for that estimate.

2. Cost for Mandates in the Budget Year (LAO Issue)

The administration proposes to fund, in the budget year all noneducation mandates that are operative in the current year, with two exceptions. Specifically, the administration proposes to:

- Change the mental health mandates known as the AB 3632 mandates into a categorical program.
- Defer, to an unspecified future date, reimbursement for the Peace Officer Procedural Bill of Rights (POBOR) mandate.

Based on prior-year claims, we estimate that the cost to reimburse local agencies for the mandates the administration proposes to fund in the budget will total about \$100 million, over double the amount proposed in the budget. About \$70 million is attributable to four mandates, each costing in excess of \$15 million: Absentee Ballots, Animal Adoption, Child Abduction and Recovery, and Sexually Violent Predators.

To avoid a deficiency in the budget year, we recommend that the Legislature increase this item by \$54 million-or reduce state costs by suspending or repealing some mandates or transform them into lower-cost categorical programs.

Staff Recommendation: HOLD the issue open and for reconsideration by the Subcommittee when better cost estimates are available.

3. New Mandates Cost (LAO Issue)

Proposition 1A requires that the annual state budget include funding for the prior-year costs of new mandates (that is, those mandates recently approved by the commission). The administration has budgeted \$45.7 million for these prior-year costs. At the time this analysis was prepared, the commission had adopted a statewide cost estimate for only one new noneducation mandate, totaling \$142,000. (We review this mandate later in this write-up.)

We note, however, that additional noneducation mandates are working their way through the commission process and the commission might approve their cost estimates late this spring. Accordingly, we withhold recommendation on this item, pending an update from the commission as to when these cost estimates for new mandates may be adopted.

Our review also indicates that it would be advisable for the Legislature to enact legislation clarifying the state's procedures for including funds for new mandates in the annual state budget. Absent such legislation, Proposition 1A could be interpreted as requiring the state to include funds for a mandate approved on the very last day of the fiscal year. To give the Legislature and administration a reasonable amount of time to adjust the annual budget bill to include funding for new mandates, we recommend the Legislature specify in statute that funds to pay the statewide cost estimate of a new mandate adopted after March 31 would be included in the budget for the *subsequent* fiscal year.

Government Code § 17561.

(c) (1) Except as specified in (2), for purposes of determining the state's payment obligation under Article XIII B, Section 6 (b) 1, a mandate "determined in a preceding fiscal year to be payable by the state" shall include all mandates for which the commission adopted a statewide cost estimate pursuant to Section 17600 of the Government Code during a previous fiscal year or that were identified as mandates by a predecessor agency to the

commission, unless the mandate has been repealed or otherwise eliminated.

(2) If the commission adopts a statewide cost estimate for a mandate during the months of April, May, or June, the state's payment obligation under Article XIII B, Section 6 (b) shall commence one year later than specified under (1) above.

Staff Comment: Savings may well be realized in this budget item, based on lower than expected new mandate costs. The Subcommittee should defer approval of this budget issue until a later date when the new mandate costs are better understood.

The proposed trailer bill language should preclude having to defer the Subcommittee's funding level decision for new mandates past April 1 in subsequent years.

Staff Recommendation: ADOPT the proposed trailer bill language identified above.

VOTE:

4. Current-Year Mandate Deficiency (LAO Issue)

Proposition 1A generally requires that the state pay any current-year mandate deficiency, or suspend or repeal the mandate for the coming fiscal year. Actions to suspend or repeal a mandate, however, do not eliminate the state's constitutional obligation to pay the mandate deficiency sometime in the future.

Based on claims submitted to date, we estimate that the current-year budget will not have sufficient resources to pay all claims. We estimate that the size of this current-year deficiency to be about \$140 million. The budget does not identify any funding for this purpose. We recommend the Legislature recognize this anticipated current-year deficiency of \$140 million or increase Item 8885-295-0001(1) by \$140 million to provide funding to pay this deficiency in the *2006-07 Budget Bill*.

Staff Comment: The Legislature has not received a deficiency request or other formal notification of increased current year mandate costs. Staff will evaluate that information carefully before proposing a current year or budget year augmentation. However, in accordance with Proposition 1A, current year mandate costs cannot be deferred.

Staff Recommendation: HOLD OPEN and request DOF report on insufficient appropriations for current year mandate costs and considerations for paying additional expenses.

5. Provide More Information About Mandates in Budget (LAO Issue)

In prior years, the Governor's budget document and the budget bill as introduced provided significant information regarding the administration's mandate proposals. For each mandate, the Governor's budget specified the: (1) administration's proposal, (2) current- and prior-year funding levels, and (3) department to which the mandate was assigned for policy oversight. The budget bill, in turn, listed each mandate's

appropriation and specified if the mandate was proposed for suspension in the upcoming fiscal year. Each mandate was scheduled under the budget item for its assigned state department, a practice intended to promote oversight by state agencies and budget subcommittees with expertise regarding the mandate's subject matter.

The 2005-06 Governor's Budget and budget bill followed the customary practice regarding mandate information. Late in the spring of 2005, however, the administration proposed a change to reduce the administrative complexity of preparing the budget act. Specifically, the 2005-06 Budget Act of consolidated most mandate appropriations (except K-14 education and two mental health mandates) under the commission's budget item. While each mandate was listed by name in the budget act, specific funding levels were not identified for each mandate.

The 2006-07 Governor's Budget and 2006-07 Budget Bill provide less information than previous budget documents and treat K-12, community college, and non-education mandates inconsistently. The Governor's budget, for example, provides no mandate-specific information regarding noneducation mandates and little information regarding community college mandates. As a result, the Legislature cannot easily determine from the Governor's budget whether the administration proposes to fund or suspend, say, the Animal Adoption or community college collective bargaining mandates. If the Legislature looked for this information in the budget bill, it could determine that the administration proposes to fund the Animal Adoption mandate (at some unspecified amount), but still may be uncertain about the administration's proposal for community college collective bargaining. For K-12 mandates, the Governor's budget provides mandate specific data (including costs) regarding all K-12 mandates. The budget bill, however, provides no information regarding funded K-12 mandates.

Every year, the Legislature makes decisions whether to suspend, repeal, fund, or defer specific mandates. Each action has different implications for the state's budget and local agency program obligations. The administration's changes to the state's budget documents make it exceedingly difficult for the Legislature or local agencies to understand the administration's proposals or track the Legislature's decisions regarding mandates over time.

We recommend that the Department of Finance submit a report to legislative budget committees and the Joint Legislative Budget Committee before budget hearings on its plan to provide the following information in all future Governor's budgets and budget bills: (1) each mandate's name, (2) the amount proposed for each mandate, and (3) the name of each mandate proposed for a one-year suspension or repeal. We further recommend that the Governor's budget include information regarding prior- and current-year funding levels of each mandate.

Staff Comment:

During staff discussions it was determined that a major obstacle to accurate reporting of past year mandate costs in the Governor's Budget (which would also allow better current year and budget year estimates) is the final claiming date for reimbursable costs. Government Code Section 17560 generally proscribes that a local agency or school district may, by January 15 following the fiscal year in which costs are incurred, file an annual reimbursement claim that details the costs actually incurred for that fiscal year.

For example, the final date to file claim costs for the 2004-05 fiscal year is January 15, 2006. This date precludes past year actual amounts from being included in the Governor's Budget, released on January 10.

In order to provide more accurate and timelier cost information to the Legislature, the Subcommittee should consider moving the reporting date to three month's earlier. An October 15 deadline should allow enough time for the SCO's final auditing of claims and DOF to include actual past year numbers and more accurate current year and budget year estimates in the Governor's Budget.

Staff Recommendation:

1. Request DOF respond to:
 - a. The LAO recommendation that names of all mandates to be funded, repealed, suspended, or deferred be specified in the Governor's Budget.
 - b. If the final claiming date were revised to October 15, the detriments or benefits to reporting, by mandate, past year mandate expenditures, as well as current and budget year estimates in the Governor's Budget, and,
 - c. If the final claiming date were revised to October 15, the impact of including budget year estimates by mandate in the budget bill.
2. Request the LAO and other interested parties report on the practical and policy implications of shifting the final mandate claiming date to October 15.

6. Workers' Compensation Cancer Presumption (LAO Issue)

Typically, in California workers' compensation law, an employee must prove by a preponderance of the evidence that a compensable injury was employment-related. Local governments long have been responsible for providing workers' compensation benefits to their employees. Since 1982, the Legislature has passed several laws that have significantly eased the burden of certain firefighters and peace officers in proving that cancer was caused by their public employment. These changes recognize that the services performed by state and local firefighters and peace officers sometimes result in exposure to carcinogens.

Since the time that these mandate decisions were reached, the legal landscape regarding mandates has changed significantly. In 1998, for example, in *City of Richmond v. Commission on State Mandates*, an appellate court found that requiring local governments to provide death benefits to local safety officers under both state retirement and workers' compensation systems did not constitute a "higher level of service to the public" under the constitutional definition of a mandate. In 2004, the commission rejected a claim involving statutes passed in 1999 and 2000 that amended prior workers' compensation law concerning cancer in firefighters and peace officers. These more recent decisions seem to suggest that changing the burden of proof in workers' compensation cases may not be the type of cost covered by the State Constitution.

Consequently, we recommend that mandate decisions be reconsidered in light of more recent judicial and commission precedent. We note that any change in the commission's mandate rulings would **not** affect firefighters' and peace officers' rights to workers' compensation benefits in any way.

Even if the commission does not change its earlier determinations that these statutes constitute reimbursable mandates, we believe that the recent changes of the workers' compensation laws—which have contributed to significant reductions of premiums and self-insurance costs since 2003—warrant a review of the parameters and guidelines for local reimbursement of these workers' compensation costs. Trailer bill language would implement our recommendation.

Staff Comment: The Commission on State Mandates and staff have reviewed the LAO's proposed trailer bill language and recommend the following language (containing minor technical adjustments to the LAO language):

- (a) The Commission on State Mandates shall reconsider the Statements of Decision and parameters and guidelines for the following programs:
(1) Cancer Presumption – Peace Officers (Test Claim Number CSM-4416); and
(2) Firefighter's Cancer Presumption (Test Claim Number CSM-4081).*
- (b) The Commission shall complete these reconsiderations no later than six (6) months after a final decision is issued by the courts in the case of CSAC Excess Insurance Authority and City of Newport Beach v. Commission on State Mandates, et al., Los Angeles County Superior Court Case No. BS092146 (Consolidated with Case No. BS095456); Second District Court of Appeal Case No. B188169.*
- (c) These reconsiderations shall be effective on July 1 following the date the Commission on State Mandates adopts the Statements of Decision pursuant to subdivision (a).*
- (d) The Department of Industrial Relations, in consultation with the Department of Finance, shall participate in the commission's reconsideration by submitting relevant information to the commission.*

Staff Recommendation: ADOPT the proposed trailer bill language.

VOTE:

7. Reforming the Mandate Reimbursement Process

During the 2005-06 budget enactment process, Legislative staff, the Administration, LAO, and other parties jointly considered process reforms to restraining the cost of state-reimbursable mandates. These discussions included the identification of deficiencies in how the mandate reimbursement process works. For the purpose of correcting these deficiencies, the Budget Act included language directing DOF to prepare a report on alternatives to the current mandate reimbursement process (provided below).

The Department of Finance shall evaluate the current mandates reimbursement process and provide alternatives and suggest improvements to the process to the chairperson of the fiscal committees of each house of the Legislature and to the Chairperson of the Joint Legislative Budget Committee not later than March 1, 2006.

In their report, DOF identified two key deficiencies with the reimbursement process. First, due to audit exception rates and time limits regarding conducting audits, substantial excess amounts are currently being paid to local governments. Second,

there is no opportunity for the State to recoup interest on overpayments and a limited time frame for the state to recoup overpayments from counties.

To address these deficiencies the DOF offered the following five suggestions.

1. A collaborative effort between Legislative staff, LAO, DOF, Commission, SCO, and local agency representatives to address reforming the mandate determination and claim reimbursement process.
2. Develop processes and policies to decrease the time required to determine reimbursability of mandates.
3. Utilize more accurate cost estimates in order to reduce the length of the mandate determination process.
4. Reduce the enactment of legislation that creates mandates.
5. Improve the reimbursement claim process.

Additionally, DOF proposes in the Governor's Budget to augment their staffing to participate in a reform effort and develop the necessary expertise to implement reform. The proposed staff would be charged with identifying policy and procedural issues in the current mandate payment process, conducting analyses of the issues, and proposing solutions. This proposal will be considered by the Subcommittee under the DOF budget item.

The Commission on State Mandates recently commissioned a study to assess the feasibility of using a collaborative process to develop recommendations for reform of the state mandate reimbursement process. The study, conducted by the Center for Collaborative Policy at California State University, Sacramento (CSUS), involved dozens of interviews with local agency, state government, and nongovernmental stakeholders. A draft has been released and the final report will be considered at a Commission on State Mandates meeting on March 29.

The draft report concludes that a collaborative process would be the best way to approach broad-scale mandate reforms and that, if it is to be productive, the Legislature must demonstrate its support for such an effort from the outset, with resources.

The CSUS study suggested several goals for the collaborative effort, including (1) the process should be significantly streamlined and the time for determining test claims and processing reimbursement claims significantly reduced, (2) the existing process should be revised to reduce the time required to process existing test claims, and should result in the payment of the state's existing mandate liability as soon as feasible, (3) better and timelier information should be made available to decision makers about the potential costs of mandates before the mandates are enacted, and (4) the new system should better integrate the need of state auditors for documentation with the need of local governments to reduce the cost of documentation by relying on more use of their normal data collection systems.

Staff Recommendations:

1. Request DOF briefly explain the findings and recommendations in their report.
2. Request LAO and other interested parties identify other areas of study that DOF did not consider, which may further the discussion of mandate process improvements.
3. Direct the LAO, staff and DOF to generate recommendations for the Subcommittee to consider to:
 - a. Utilize more accurate cost estimates;
 - b. Reduce the enactment of legislation that creates mandates;
 - c. Develop processes and policies to decrease the time required to determine reimbursability of mandates;
4. Request the Commission, DOF, and other interested parties report back to the Subcommittee on their recommendations for implementing any portions of the report by the Center for Collaborative Policy.